FINANCIAL INCLUSION

A FRONT WHEEL OF INCLUSIVE GROWTH

RESEARCH REPORT

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RECOMMENDATIONS

A bunch of suggestions has been given by the researcher based on the findings of the study to improve the level of financial inclusion. In addition to existing literature, findings are supported by opinions of bank officers and end-users, who are equipped to present the actual situation on the ground. Below are the suggestions:

- Banks and governments should work together to understand local situations, provide enough awareness and information, and implement good client orientation policies. Because of the common understanding of inclusive growth and financial inclusion in Madhya Pradesh, it is essential to promote these concepts.
- The Financial institutions should be more focus to create the awareness about the all related schemes of financial inclusion. For this the institutions should adopt the different public advertisement platforms and other societal advertisement approach which help to reach the large number of potential beneficiaries of financial inclusion.
- The NSS schemes of higher education institutions may be assigned the role of creating awareness for financial inclusion schemes at grassroot level.
- It has been observe that most of the population is unbanked in rural areas of all three states. Therefore at least one bank branch with in the radius of 20 km of any type (RRB's or any other scheduled commercial bank)
- The study shows that most of beneficiaries use microfinance/credit to take loans, expand their business, and health - accidents, severe illness of the household, other medical expenses. However, several other purposes like Farm Mechanization, Consumption- Marriage, and Major Repair of the House can be used. Therefore the financial institutions should focus and encourage these schemes more aggressively.
- Similarly, study also shows that using micro-insurance policies among beneficiaries is very limited. Thus it is suggested that banks, MFI should organize more awareness camps, and NGOs to create the awareness that microfinance and insurance policies provided by GOI are the most powerful tools for inclusive growth through financial inclusion.

- Educating people for different financial services of financial inclusion should be another important step for achieving the inclusive growth. These services would enable them financial independent and active. Most of the respondents are aware of PMJDY, PMJJBY, APY, PMMY in all three states. However, there are many other schemes such as SUIS, PPVVY, and PMSBY, which provide many other facilities like Easy Loan Facility, Pension Benefit, Low Premium Rates per year, which can help in the inclusive growth of the economy when the penetration increases among the low-income group of the society.
- As per the study, financial inclusion must be accompanied by strategies that facilitate the productive wheel for inclusive growth like use of the poor's assets, such as credit or savings tools, children's education , peace of mind, economic empowerment of women, participation in decision-making, position in the community and village. Strategies of the Financial inclusion will also break down social, cultural & religious barriers that prevent unprivileged people from achieving their full potential, among other things.
- The slow progress of financial inclusion costs a lot to achieve the targets of inclusive growth in the selected states i.e., UP, MP and Rajasthan. The existing financial inclusion system has insufficient access and connection/connectivity with essential services like education, health, employment and housing. The researcher finds that public take these financial inclusion schemes like any other government schemes which emerges at the time of election/part of election campaign. The lack of support from financial institutions to release the funds also create the doubts in the minds of public that is why the beneficiaries are unable to get their own money. So, researchers recommends that self-help groups, microfinance institutions, and bank linkage programs be promoted as another option for rural development as new dimensions of the financial inclusion.
- During the study, researcher finds a variety of issues that people encounter while working with financial institutions engaged in financial inclusion process. The beneficiaries reported that banks charges are too high and taking lot of time for their services like account opening process. The beneficiaries reported that the banks are not duly oriented for their credit needs related to personal, business or agriculture. The major chunks of beneficiary reported that

financial institutions are not fully gear up and work as bridge between the financial inclusion policies and its end users i.e., under privilege people of the society. For this research suggested that the service provider will be able to customize the product to meet the customer's specific needs. Such as the decentralization of financial inclusion policies to better meet the needs of the regions in which they operate.

- During the study period women are not focused properly to include in the process of financial inclusion. Therefore it is recommended that banks should now focus on women to open their bank accounts under PMJDY. Since the bank employees are committed for their mission, they must be proper training and motivation should be given to them to fight with gender inequalities in general and rural areas in particular.
- During the study it is observed that financial institutions faces delivery difficulties caused by remote places and inadequate infrastructure increase costs, resulting in a lack of awareness among potential customers. It would be beneficial at this time to establish business relationships with intermediaries such as non-governmental organizations (NGOs), microfinance institutions (MFIs), community-based organizations (CBOs), and self-help groups (SHGs), which can serve as a resource for the introduction of new services and methods. It is also possible to build distribution channels with the assistance of rural branch offices of commercial or cooperative banks, such as RRBs.
- Lack of awareness among the villagers about the services of the schemes, fear of card blocking in the face of wrong operations, ATMs machine out of service most of the times, and difficult password mechanisms as the fundamental problems, bankers mostly face in dealing with various financial inclusion schemes in different states. Due to this, the growth of financial inclusion is stagnant and does not meet the government's targets for each year. Thus, it is suggested that proper training and incentives for business correspondents should be given, as they are the direct linkage between the non-user (illiterate) and the banks, and proper use of customer relationship management (CRM) strategies would help speed up the rate of inclusion in the area.

CONCLUSION

The India's growth agenda is considering the inclusive growth at the top of the priority list during the current decade. The Government of India intensify the efforts for inclusive growth through financial inclusion of all sections of the society. The financial inclusion serve as unifying thread that binds together all of the sections of the society by providing an equitable opportunity and connect them with the financial system of the country. The financial inclusion creates the opportunities by converting all the financial assistance of all sections of the society into welfare activity to flourish and prosper. In the research there is lot of evidence is provided that financial inclusion is an essential component for inclusive growth particularly developing economy like India.

Financial inclusion is now widely accepted as a critical component of inclusive growth. Financial inclusion provides a door to a more open cohesive society and inclusive growth. It aims to deliver affordable, accessible, safe, and sustainable financial connectivity - responsibly to enable people to build assets and improve their livelihood. Through this financial institution, people can save money in a safe place, obtain loans and get insurance at a reasonable cost, and take control of their own lives and the lives of their families.

The government is working on several structural transformations in the economy and financial inclusion is one of them to achieve inclusive growth, such as Jan Dhan Yojana, Jeevan Jyoti Yojana, and Suraksha Bima Yojana. There is no doubt that the Reserve Bank of India (RBI) plays a crucial role in this regard, and it has been pushing the mission of financial inclusion for inclusive growth with great determination in recent years. In this vein, RBI initiatives like no-frills accounts, simplifying KYC procedure, engaging business correspondents, adopting regional languages, utilizing technology, introducing GCCs, one-time settlement, and financial education are all positive moves forward. Some of the transformations are simplifying tax laws and making them more taxpayer-friendly, more efficient allocation of resources collected from taxation in the economy, increased private sector participation through their CSR activities, and others.

For the quality life for all sections of the society financial services are as important as other services like water, electricity, transport, and communication. Financial inclusion provide

infrastructure support by enabling the other sustainable development activities like clean water, quality education, affordable healthcare, and gender equality which are necessary for inclusive growth. Consequently, the ideal financial society makes it easy for people to manage their lives financially. Low-income people require adapted and customized services because of their irregular income sources and unpredictable expenditure patterns. Financial inclusion integrates the socially and economically excluded people into the economy and development channel. *A quote from the Consultative Group to Assist the Poor CGAP, the development arm of the World Bank, says it best: "The financial system is in some ways the nerve system of an economy. The financial system enables market transactions, provides government benefits and makes it possible for citizens to participate in the economy. In order to achieve an inclusive, equal, and peaceful society, the financial system must be inclusive." CGAP notes: "While more inclusive financial systems alone do not solve social problems or build peaceful and inclusive societies, they are certainly a critical component. It is hard to imagine progress without them. "The poor need to set aside money in times of plenty and draw it in need. Their lives are a series of risks as a financial problem is just a tragic event away. Without access to inclusive financial systems, low-income individuals and small businesses miss out on promising opportunities, feel deprived of utilizing their entrepreneurial skills, and cannot obtain capital. It can be difficult to manage money, and it is even more complicated when living on a monthly income, which makes planning life difficult. A lack of financial access is a significant cause of persistent poverty.*

As more of economies have access to affordable and high-quality financial services, their prospects for getting success towards inclusive growth. Especially for women, traditional financial institutions are often unsatisfactory. It is possible to develop new products and services geared specifically toward women. The managers of household savings remain women in all societies, regardless of how oppressed or illiterate they are. Inclusion in financial services involves removing barriers to using those services, whether price barriers or non-price barriers. These market imperfections, such as knowledge disparities and transaction costs, may disproportionately impact the talented poor, and small businesses that lack collateral and financial documentation, potentially excluding them from financial markets.

The high costs of obtaining and serving low-income clients make it hard for formal financial institutions to serve them, even though we live in an era of innovation in financial inclusion. They have inadequate banking facilities because of the small transaction sizes and lower balances in accounts. Informal financial services offer more flexibility and convenience. Formal financial institutions have to spend too much resources on establishing delivery channels, particularly when establishing brick-and-mortar distribution channels. However, technological developments, new products, and regulatory frameworks have brought financial services to millions of remote communities. Billions of people are already using mobile phones, and smartphone prices are falling rapidly, making it possible to connect the people to formal financial services. Financial services can be rolled out to those in need rapidly through technology like mobile banking.

Access to financial services is growing much more slowly than the penetration of mobile phones. Mobile network operators can now quickly connect villages half a day away from bank units and inaccessible via road by providing real-time connectivity and access to people. AadhaarID, Jan Dhan accounts, and mobile technology - collectively known as the JAM trinity - allow us to develop entirely new business models that are highly efficient, scalable, and dependable.

Banks can now provide financial services closer to consumers at a relatively low cost using various devices and non-conventional methods such as home-grown customized ATMs with lower processing costs. In addition, smart cards can be used in conjunction with a point-of-sale or point-of-transaction device and bankers and mobile money agents. Banks can further develop their financial inclusion initiatives by designing simple, intuitive, tailored products. Despite this, individual interaction and tangible interface should not be underestimated. The last mile customer integration must be friendly and close to generate trust and confidence in consumers.

Nevertheless, there is still lot of work has to be performed to achieve sustainable and inclusive growth. The financial inclusion is playing its important role. The GOI has made all side efforts to connect the people of deprived society to the financial system by direct benefit transfer, like direct transfer of scholarship or direct transfer of money int beneficiary even the natural calamities like Covid-19.

In this research, the researcher makes an attempt to fill gaps by discussing financial inclusion and exclusion, financial inclusion index indicators, the role of financial inclusion schemes in India for inclusive growth, the components of inclusive growth, the status of financial inclusion in India, and challenges associated with the implementation of financial inclusion programs.

At the outset of Chapter 2, the researcher reviewed the existing literature on financial inclusion and inclusive growth, the relationship between financial inclusion and inclusive growth, and other dimensions/facet of financial inclusion. As a result, a research gap has been identified in the field. Additional components of financial inclusion, such as micro-insurance, microfinance, rural development, poverty, social change and security, and others, were included in the chapter to allow for further study to be conducted in this area. An analysis of the research method utilized throughout the research study is also explained. The chapter finishes with a reliability test (Cronbach's alpha) used to evaluate the validity of the questionnaires used in the study. As a result, the overall chapter is concerned with the study's research design.

Detailed profiles of each state are presented in chapter 3, i.e., Uttar Pradesh, Madhya Pradesh, and Rajasthan, which together account for over 75% of the BIMARU states of the country. Three states were chosen for this comparison because their geographical conditions are similar to one another. A multi-stage and systematic sampling procedure was adopted to choose the one district from each of the state for the study. Agra, Gwalior, and Bharatpur are the three districts of the chosen states. The district of Agra in Uttar Pradesh has the highest number of Tehsils and blocks, making it one of the most prominent divisions in the state. In terms of living conditions, the Gwalior and Bharatpur district of Madhya Pradesh and Rajasthan are nearly identical to one another, and their physical boundaries are well connected to the Agra division. In the second sampling procedure step, those divisions have been examined from the Agra, Gwalior, and Dholpur Districts (out of the other districts of divisions) with the highest number of villages in the district (as compared to the other districts of divisions) have been considered. Fatehabad tehsil of Agra district and division of Uttar Pradesh has been selected for the final phase of the sampling procedure based on the fact that it contains the greatest number of villages in the district and

division. In the same fashion, the tahsils of Gwalior and Dholpur in Madhya Pradesh and Rajasthan, respectively, have been selected.

Primary and secondary data have been used to conduct the comprehensive analysis in Chapter 4. The researcher used a questionnaire designed one for beneficiaries and another for bankers who involve in financial inclusion programs. The researcher has executed a self-structured questionnaire with the help of stratified random sampling. The researcher studied the performance of several financial inclusion schemes/yojanas operated by the government in this chapter. In this chapter, the hypotheses have also been tested. SPSS 28.0 was used to compute the mean, standard deviation, T-test, ANOVA, and one-sample test to make the study more analytical. In the study 15675 respondents from 627 villages from three states, i.e., Uttar Pradesh, Madhya Pradesh, and Rajasthan has been taken into consideration. However, while collecting the data from the respondent, only 13392 questionnaires were suitable for the analysis of the study. Rest 2283 questionnaires were incomplete and did not fit to include in the study.

In the research, the researcher compares the overall performance of all three states based on a questionnaire filled out by beneficiaries and officials from the bank. Furthermore, the results clearly show that **Rajasthan** is the most prosperous state in leading the way in inclusive growth through financial inclusion. Whereas UP holds the second rank and MP holds the position of the bottom place.

The researcher discussed the findings of the study based on primary survey and based on analysis of secondary data. The findings based on the primary survey have been further grouped into three sections. The first section contains findings based on primary data collected from the public; the second section contains findings based on bankers' comments, and the third section contains findings based on various financial inclusion schemes. In the final section, the scholar also briefly discussed the findings of the hypotheses.

Financial inclusion and inclusive growth promote financial robustness based on lessons learned and experiences during the COVID-19 pandemic. Financial inclusion helps to promote inclusive growth by ensuring that financial services, such as credit, are accessible to those at the bottom of the pyramid. People at the bottom of the pyramid will be able to make informed financial

decisions with the help of better financial literacy and education. Additionally, NBFCs, MFIs, etc., will be able to enhance their customer base and increase their product offerings, thereby diversifying their balance sheets.

To attain a sustainable future for all, we must continue to work for greater financial inclusion. Bank accounts must be made universal and financial products relating to credit, investment, insurance, and pensions. To promote trust in the financial system, all stakeholders should ensure the financial ecosystem (including the digital medium) is inclusive and capable of effectively managing risks such as misspelling, cybersecurity data privacy, and financial education and awareness. Grievance resolution mechanisms must be robust enough to support these efforts. Hopefully, this research will generate exciting ideas and thoughts that will enhance the process of financial inclusion in the country.

SUMMARY

Inclusive growth is best achieved by investing in financial inclusion. Financial inclusion enables access to finance and financial services to the unbanked and those with insufficient or no access to formal financial institutions.

It will help emancipate people out of poverty and benefit the rest of society by promoting entrepreneurship, reducing crime, and improving health. The lack of financial access is one of the most common reasons for poverty in developing countries, and it can be overcome through financial literacy training and technology-enabled finance.

In the current research, an effort has been made to study the role of financial inclusion in inclusive growth and to determine the impact of financial inclusion on the overall development of a weaker society. To attain the research objectives and test the hypotheses, the researcher contacted and collected data from 13392 respondents from 627 villages in 3 states, i.e., Uttar Pradesh, Madhya Pradesh, and Rajasthan, irrespective of caste, creed, or sex.

The researcher has examined all the government's policies from 2011 onwards to know the government's commitment to inclusive growth. For this purpose, the academicians and government officials have been interviewed personally to gain in-depth knowledge. A survey has helped identify and rank the parameters of inclusive growth from the government and

beneficiaries' points of view. Based on that weighted mean is used to rank the parameters and schemes. The survey also helps collect the information regarding the new financial inclusion schemes and measure the socio-economic impact of microfinance, micro-insurance, and other socio-economic impacts.

The researcher has also collected information from the different officials' websites and reports regarding the financial inclusion initiatives during the study period. Through the personal interview and survey of the respondents, the government officials will be used to ratify the secondary information in this regard. The time series analysis has been used for this purpose.

In the research, the researcher compares the overall performance of all three states based on a questionnaire filled out by beneficiaries and officials from the bank. Furthermore, the results clearly show that Rajasthan is the most prosperous state in leading the way in inclusive growth through financial inclusion. Whereas UP holds the second rank and MP holds the position of the bottom place.

This research concluded that the government is working on several structural transformations in the economy. Financial inclusion is one of them to achieve inclusive growth, such as Jan Dhan Yojana, Jeevan Jyoti Yojana, and Suraksha Bima Yojana. There is no doubt that the Reserve Bank of India (RBI) plays a crucial role in this regard, and it has been pushing the mission of financial inclusion for inclusive growth with great determination in recent years. In this vein, RBI initiatives like no-frills accounts, simplifying KYC procedure, engaging business correspondents, adopting regional languages, utilizing technology, introducing GCCs, one-time settlement, and financial education are all positive moves forward.

Finally, much work still has to be performed to achieve sustainable and inclusive growth based on findings and conclusions, and financial inclusion plays an essential role. The last researcher has given implications of the research to help policymakers, beneficiaries/end-users, and researchers.

FUTURE FINDINGS

- This study examined financial inclusion levels in three districts in three states. In order to accomplish this, the study covers individuals predominantly living in rural areas and a limited

number living in urban areas. In terms of urban areas, this study can be expanded upon. Numerous studies have studied financial inclusion in India, but very few have focused on urban areas. According to this study, future researchers should investigate the status of FI in different areas of the country, which are less studied and will allow them to get a complete picture of the situation.

- Several Indian states could be compared for the results of this study to be generalized or varied.
- In addition to the study of the role of banks, other delivery channels should also be explored: They can be examined for their effectiveness in promoting financial inclusion in the district. Due to the current nature of the study, the research scope is quite broad; the factors derived from the study can be utilized for empirical research as well.
- An evaluation of how innovative tools are adopted in rural areas and how they affect FI needs to be studied.
- Studies on financial inclusion can also be extended by measuring the Index of Financial Inclusion (IFI) based on other reliable indicators related to financial inclusion. Additionally, further research is recommended on the relationship between penetration of the banking sector and accessibility to banking services among vulnerable groups of people.
- Analyses could be conducted periodically with similar or different objectives in different areas. The research study provides a broader scope for future research.

IMPLICATIONS OF RESEARCH

Research and end-users will benefit from this study, while government, RBI, and banks will find it helpful in designing strategies for their respective regions. Researchers and academicians can learn from the study about how financial inclusion is perceived by banking professionals in the banking industry and suggestions for the implementation of inclusionary policies. These findings will be helpful in their research work. The government and banks will benefit greatly from this study because it provides valuable information about the progress of financial inclusion in the study area and helps them act accordingly. Statistically, the research results indicate that government participation and financial inclusion lead to inclusive growth in India. According to

the financial inclusion report, inclusive growth did not occur uniformly across demographic groups. The government's financial inclusion programs have benefited the rural population, youth, men, well-educated people, and small businesses the most.

The following stakeholders will benefit from the present study:

1. **Society:** Connecting the banking system with the people and society is vital for increasing financial inclusion. Understanding how financial inclusion is essential could be gained from this study. Social & economic development of society can be achieved by providing the weaker section of society with easy and affordable access to financial services and removing various obstacles to its implementation.
2. **Policy maker/ Government:** The study will produce policy recommendations for infrastructure development like adding more branches and using IT and ATMs to increase the rate of FI. For the lower strata of society, the Government may introduce cost-effective products. The Government may introduce various financial literacy programs based on suggestions. Initiating various schemes is a welcome initiative, but strategies must be used for these schemes and services to be implemented effectively.
3. **Regulatory Body/ RBI:** It may be helpful to the Reserve Bank of India and financial institutions in formulating policies and strategies to increase bank lending. Financial institutions and Central Banks can plan joint campaigns that spread financial literacy to their customers with the help of professionals/trainers. The inclusion of females at the local level may be a strategy the Banks formulate to improve living standards and reduce poverty. People's perception of the financial system can change drastically depending on how bank officials behave. When people use financial products/services, the earning potential of banks increases. By studying the use of technology to increase the reach of FI, this study will contribute to a better understanding of its effectiveness. Financial institutions can also conduct awareness campaigns in rural areas. When designing financial products and services for the underserved segment of society, policymakers and service providers should think about customization.

4. **Beneficiaries/ End User:** Also, this study is useful for final users as they can learn why financial systems need to be linked. People will become aware of the benefits of using financial services as a result of such a study; this will help in building their trust in the system. Using technology and innovative financial products will allow them to understand the role technology and the economy play in their upliftment.